

Pacific West Land, LLC

403 Madison Avenue North, Suite 230
Bainbridge Island, WA 98110

3/22/2017

March 2017 Update

We completed mailing of K-1's and other tax information to Members of the many LLC's managed by Pacific West Land on March 9. I tip my cap to Laurie and Sally who led the K-1 charge here in our office. This is the most complex administrative task we tackle, and this year has been no exception.

Pacific West Real Estate Income II, LLC (PWRE2) now has over \$20M in commitments. If you would like be prioritized for receiving the materials, would like to meet with me to discuss them, want to schedule a call, or a meeting here in our office, please drop me an email or give me a call.

I received a great question from an investor regarding a couple of articles in the Wall Street Journal, which made the claim that mall owners are all selling, and the investor asked how that would affect our new entity, PWRE2. These same two articles also came up in a couple of phone calls with Members, so I'm sharing my answer here.

Thank you for the question. This is one of several articles the Wall Street Journal has published over the last 3 months concerning the woes of the mall industry. In 2010 and 11 the big mall REITS were splitting themselves into "Good REIT" and "Bad REIT" and distributing shares of both to investors or selling off bad REIT through highly leveraged deals. Those bad REITS are doomed. We're going to read a lot more about the bad mall REITS, because the WSJ loves to follow up a story like this; the WSJ predicts pain and pain is later endured.

The mall business is predicated on people browsing for clothes. As people shop the Internet, they buy more clothing online and do less mall browsing, instead picking out what they want and going straight to the store that sells it. Less browsing means malls in middle class American suburbs are in trouble. The good news is that PWL is not in the mall business. Conversely, when a mall begins to fail, it's often good for nearby strip centers, as some tenants will relocate out of a mall, once the mall has the smell of a failing business wafting through the wide empty corridors. We experienced this most profoundly at a center called Arrowhead that we managed before

selling a couple of years ago. The mall nearby started going down and we picked up 2 excellent tenants.

While the mall business has been floundering for at least 4 years, we've seen our vacancy rate across our whole portfolio continue to decline, driven by primarily service businesses including medical services. These tenants sell things a shopper can't buy on the Internet.

The health of the properties we specialize in is driven by the number of people nearby getting paychecks. As employment moves up, people get their nails done more often, go out to eat more often, and shop at specialty retailers. Across our portfolio I think we have few clothing retailers. Fifteen years ago we had a video store in almost every location, today we have zero. We had a half-dozen book stores, today we have zero. For strip centers, which never relied on browsing/buying behavior, the Internet has already wiped out our tenants that it can wipe out. We keep our eyes open for any such uses of technology in the future as it continues to improve.

The other important thing to remember is vacancy is not fair. When vacancy goes up in an area, the worst location will be completely empty and the best location completely full. If you were to pick any center that you've seen us buy, fill, and sell, the odds are high we can locate another center within 3 miles that is still empty. In filling out PWRE1, choosing locations that would weather a soft period in the economy and maintaining occupancy were of keen importance in our selection process. This will be true of PWRE2 as well.

The article misses one other minor point. It talks about property sales as though there are no buyers on the other side of the transactions. I've found the WSJ has fallen into this habit over the last couple of years, "Everyone is buying" or "Everyone is bailing." The paper didn't do that 10 years ago.

As always, please don't hesitate to call with questions, and we always welcome visitors.

Best –

Martin A. Stever
206-780-3944
martin@pacificwestland.com

PWREI Scorecard
(approximate investment by PWREI)
all data as of 1/31/17

Willow Hill Center — PWREI purchased this property in May 2014. The 21,082 sq. ft. center is located in Puyallup, WA. Tenants include Money Tree, Kumon Learning, and Rainier Growler. PWREI owns 83% of this property. Starbucks parcel sold for ~\$2.35M net on October 15, 2014. Ivar’s pad sold for ~\$1.27M net on April 28, 2015.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$5,625,000	\$2,701,930	74%	\$24,079	\$24,079

Benjamin Square — PWREI purchased this property in May 2014. The 9,950 sq. ft. center is located in Woodland, WA and is just off I-5. Tenants include Starbucks, Subway, Papa Murphy’s, H&R Block, and Verizon Wireless.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,900,000	\$1,967,475	86%	\$14,016	\$14,016

Shoppes at Buford — PWREI purchased this 20,844 sq. ft. property in May 2014. The property is located in Buford, GA and is located across from the Mall of Georgia. The tenants include Edible Arrangements, a hair salon, and a Vietnamese restaurant.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,740,600	\$2,827,281	72%	\$12,656	\$12,656

Auburn Road — PWREI purchased this property in August 2014. The 8,400 sq. ft. property is located in Dacula, GA. The tenants include Farmers Insurance, a medical care facility, and a veterinarian who recently expanded his practice.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,000,000	\$1,020,400	86%	\$9,320	\$9,320

Roosevelt Place — PWREI purchased this property in August 2014. The 14,000 sq. ft. center is located in Phoenix, AZ off of busy I-10. The tenants include Port of Subs, Teramar Staffing, and a drive-thru Filiberto's Mexican restaurant. The Jack in the Box pad sold on May 2, 2016 for ~\$1.08M net.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,960,000	\$1,942,527	80%	\$10,431	\$10,431

Little Corona — PWREI purchased this property in December 2014. The strip consists of 6,074 sq. ft. of leasable space located at the busy intersection of Rural Rd and Ray Rd in Chandler, AZ. Current tenants include a Greek restaurant and Fullers Bar & Grill. Negative NOI due to a large parking lot repair expensed this month.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,010,000	\$1,019,850	59%	-\$266	-\$266

Dail Center — This property was purchased in December 2014. The 16,145 sq. ft. strip is located along US Route 17 in Myrtle Beach, SC, which boasts over 14 million visitors a year. Current tenants include Batteries Plus, Coastal Beds, Atlantic Kitchens, State Farm, and Tao Wellness Spa.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,522,500	\$1,526,877	74%	\$12,095	\$12,095

Gulf Breeze — PWREI purchased this 27,736 sq. ft. property in January 2015. The strip is located in Port Arthur, TX and is shadow anchored by H-E-B, a major grocery chain based out of San Antonio, with great visibility from both Hwy 365 and 347. Current tenants include Edward Jones, Sprint, Fancy Nails, Supercuts, and Pizza Hut.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,677,500	\$2,723,708	64%	\$25,025	\$25,025

Log Pond Plaza — PWREI purchased this 27,368 sq. ft. property in March 2015. This strip, located in Newark, OH is shadow anchored by a Walmart Super Center and across the street from a Home Depot, in a dense residential

area just north of SR-16. The center boasts a healthy mix of local and national tenants including Aaron's, Cheng's Chinese, Fiesta Salon, Buckin Burger, and CATO.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,850,000	\$1,923,078	90%	\$16,066	\$16,066

Massard Farms — PWREI purchased this large shopping complex in April 2015, located in Ft Smith, AR. This 100% occupied center totals 133,709 sq. ft. of leasable space, consisting of Kohl's, Savers, IHOP, and an 8,000 sq. ft. mixed tenant building including Catherine's, Sport Clips, Firehouse Subs, and Pad Thai Cuisine.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$13,415,287	\$13,773,643	100%	\$88,351	\$88,351

Oak Creek Commons — PWREI purchased this small strip center in May 2015. Located south of Milwaukee, the population growth and average household income of Oak Creek, WI are projected to outpace the national average over the next five years. The 10,462 sq. ft. property has a healthy mix of tenants including Express Cleaners, Fantastic Sam's, Yen Hwa Chinese Restaurant, and Dunkin' Donuts.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,191,750	\$1,256,205	88%	\$9,955	\$9,955

Massillon Commons — PWREI is 66.7% owner of this shopping center purchased in June 2015. It is located along the busy Lincoln Way corridor in Massillon, OH. In addition to a 50,503 sq. ft. Dunham's Sports, this property boasts 63,048 sq. ft. of leasable shop space. Home Depot sold on June 30, 2016 for ~\$9.36M net and proceeds were used to pay off debt.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$8,618,667	\$2,393,457	72%	\$25,644	\$25,644

Greensburg Commons — This property was purchased in July 2015 and is 66.7% owned by PWREI. The large shopping center is located at the

intersection of I-74 and State Rd 3 in Greensburg, IN. It currently consists of 88,953 sq. ft. of leasable retail space and boasts a healthy mix of tenants including Jimmy Johns, Great Clips, Gamestop, GNC, Rent A Center, Goody's, Cricket Wireless and Bath and Body Works. The Walmart parcel sold on December 2, 2016 for ~\$13.9M net, with most of the proceeds used to pay off debt.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$12,512,000	\$3,296,832	68%	\$48,914	\$48,914

Gateway Center — PWREI purchased this strip center in October 2015. It consists of 28,240 sq. ft. of mixed retail space located at the intersection of US 76 and Main St in Newberry, SC. It is shadow anchored by a Walmart. Current tenants include Gamestop, Sally Beauty, Newberry Nails & Spa, CATO, It's Fashion, Shoe Show, Groucho's Deli, Boost Mobile, and China Town Restaurant.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,030,055	\$2,149,811	93%	\$25,111	\$25,111

Powder Springs — This property was purchased by PWREI in October 2015. It is located on Richard D Sailors Pkwy in Powder Springs, GA and is shadow anchored by a Home Depot. The small strip center has a total of 15,050 sq. ft. and has Allen Chiropractic, Johnny's Pizza, and Nail TLC as tenants. The vacant pad we bought with the building was sold on February 12, 2016 for ~\$280k net.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,100,000	\$821,003	37%	\$663	\$663

Sugarcreek Crossing — PWREI is 66.7% owner of this shopping center in Centerville, OH, purchased in October 2015. The property at purchase included three parcels – a ground leased Cracker Barrel pad, a Tire Discounters pad and a multi-tenant retail building containing a UPS Store, Godfather's Pizza, and Mattress Firm, among others. The Cracker Barrel parcel was sold on May 6, 2016 for ~\$2.28M net. The Tire Discounter's parcel sold on December 23, 2016 for ~\$2.96M net.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$5,117,333	\$1,835,516	100%	\$20,494	\$20,494

Castleberry Promenade — PWREI purchased this property as a joint deal with East West Market in February 2016. It consists of 26,452 sq. ft. of leasable space with two small developable pads, and is located at the busy intersection of Bethelview Rd and Castleberry Rd in Cumming, GA. Current tenants include Castleberry Ale House, My Running Store, Fitness Foundation, Kumon Learning, and i4Food.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,906,000	\$2,906,000	75%	\$9,236	\$9,236

East West Market — PWREI purchased this property as a joint deal with Castleberry Promenade in February 2016. This center is located along East West Connector in Austell, GA and consists of 17,017 sq. ft. of leasable space and a 1.09-acre developable pad. Current tenants include 100% Chiropractic, Wellstar, and American Health Imaging.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,660,000	\$2,660,000	75%	\$20,021	\$20,021

Village at Las Sendas — PWREI purchased a 33.4% stake in this property in June 2016. The shopping center is located in Mesa, AZ at the intersection of McDowell Rd and Power Rd and consists of 39,144 sq. ft. of leasable space. Current tenancy is a diverse mix of local and national tenants including Sunnyside Breakfast, Jimmy Johns, Pacino's Italian, D'Vine Wine, Smashburger, Coco Milanos, Royal Tobacco, Chipotle, and Echo 5 Sports Pub.

Initial Investment	Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,922,500	\$2,928,683	87%	\$61,889	\$61,889

Note: MTD and YTD numbers reflect the PWREI's portion of the totals. All profit, NOI, Gross IRR, and Multiple calculations presented are unaudited gross estimates.

All numbers within this report are unaudited and should be considered as close approximations. Members receive the audited results on an annual basis.